

Today's Topic Latest Trend of the Japanese Equity Market

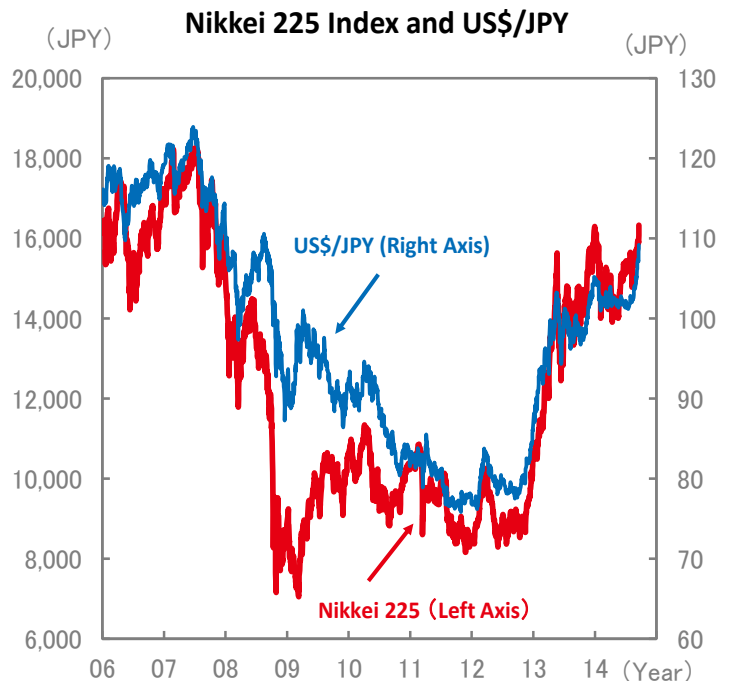
**Nikkei 225 Index – Broke Historical High since Abe Cabinet was Formed**

**Point 1 Sharp rise supported by the robust US economy**  
**JPY depreciation Following US interest rate hike expectations**

- On September 19, Nikkei 225 Index broke the historical high since Abe Cabinet was formed and also since the Global Financial Crisis. The closing price was 16,291.17 yen, surpassing 16,291.31, the highest in 2013, marked on December 30.
- The background of the advance is the continuous renewal of the historical highs of the US equity market and also the recent yen depreciation breaking into 109 yen level resulting from regained expectation of rising US interest rates.

**Point 2 Weak yen against US dollar after a six years interval**  
**No technical resistance before reaching 110 yen or more level**

- It was almost since six years ago back in August 2008 that JPY depreciated to the 109 yen level against US dollar. This was when concern on the US economy receded temporarily just before the Global Financial Crisis (Sep. 2008).
- At that time, JPY depreciated further to midst of 110 yen at one time. This time, technically, after US\$/JPY exchange rate rose to 106 yen level on September 8 last year, there would be no specific resistance level before it reaches to 110 yen.



(Note) Data from Jan. 2006 to Sep. 19 2014 on daily basis.  
 (Source) SMAM, based on Bloomberg L.P. data.

**Future Outlook Equity valuation should become more attractive with the improved corporate earnings forecast**

- With the progress of JPY depreciation against US\$, the expectation by the market on the improvement of the corporate earnings will arise. While we, SMAM, expect aggregate recurring profits of the major Japanese corporations (excluding financials) will rise about 7% y-o-y for FY2014, with further JPY depreciation, the corporate earnings would be revised upward mainly in the manufacturing sector. Our forecast is that the earnings growth rate may have a chance of rising by more than 10%, if U\$/JPY rate should continue to be staying between 105—110 yen.
- When the corporate earnings forecast is revised upward, the equities will be deemed undervalued. Current forecasted PER (on 12 month forward basis) of TOPIX is standing on 13.9 times as of September 18, cheaper than 15.6 times of S & P 500 of US and 14.3 times of Stoxx 600 of Europe. If the corporate earnings forecast of the Japanese corporations is revised upward, the forecasted PER should decrease further which will make the Japanese equity market more attractive in valuation. This would stimulate the expectation of further upside.

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